



Partners Group

REALIZING POTENTIAL IN PRIVATE MARKETS



M&A in the financial industries – the regulatory and compliance minefield (or mogul slope...)

Valbella | 22 January 2018 | Tobias Giesser (Partners Group, Co-Head Structuring Services)



Sports analogy I: focus, discipline & accurate advice or what it needs to stay on the proper (lawful) lane...

- Dutch speed skater **Sven Kramer** was left in tears after confused communication with his coach cost him a gold medal at the **Winter Olympics 2010**.
- He was hot favorite for the 10,000m title and he completed the grueling circuit in what would have been an Olympic record time. However, his dreams of a double gold crumbled when he was **disqualified for an incorrect change of lanes**.
- **Sven Kramer**: "I wanted to go on the outer lane, then just before the cone **Gerard [his coach] shouted, 'Inner lane!'** I thought he was probably right. (...) You have to decide in a split second. I should have gone with my own thoughts but I was brought into doubt. This really sucks. **This is a real expensive mistake. This really sucks.**"



Global private markets investment management

Private markets focus

EUR 61.9 billion¹ AuM in private equity, private debt, private real estate, private infrastructure

Strong resources

Over **1,000** employees² representing approximately **50** nationalities across **19** offices

Independent

Combined, **employees** are the **largest shareholder**

Stable & transparent

Long-term incentive structures
Listed on the SIX Swiss Exchange



Wide network

>**450** direct investments³
>**800** private markets investment partners
>**300** advisory board seats

Integrated approach

Direct, secondary and primary investment capabilities across private markets

Tested risk management

Chief Risk Officer and a dedicated team of portfolio and risk managers

Client focused structuring

In-house team of over **50 professionals²** offering customized structuring, legal and tax services

¹ The following figures are estimates for the full year of 2017 as of 31 December and as such are subject to change. Assets under management exclude discontinued public alternative investment activities and divested affiliated companies.

² Team figures as of 30 September 2017.

³ Does not include corporate senior debt.



Partners Group 2017 investment platform overview

Investment platform update

- **USD 13.3 billion** invested in private markets opportunities on behalf of our clients
- **USD 8.3 billion direct investments** based on **3,843 direct opportunities screened**
 - USD 4.1 billion invested in 30 assets
 - USD 4.2 billion invested in 47 credits
- **USD 2.2 billion secondary investments; USD 137 billion screened** across all asset classes
- **USD 2.8 billion invested with select best-in-class managers** in the private markets industry
- **USD 11.8 billion underlying portfolio distributions**

77 direct investments across the globe

North America	Europe	Asia-Pacific/ RoW
27 direct investments	34 direct investments	16 direct investments



Note: preliminary and estimated figures; figures exclude investments executed for short-term loans, cash management purposes and syndication partner investments. The number of credits does not include liquid loans in the syndicated debt market.



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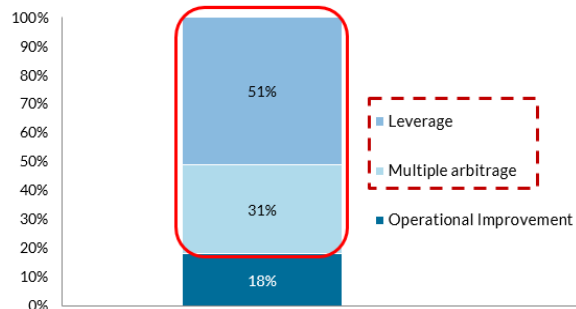


Private Markets 1.0 (1980-1995) – "roaring beginnings"

Mostly private equity



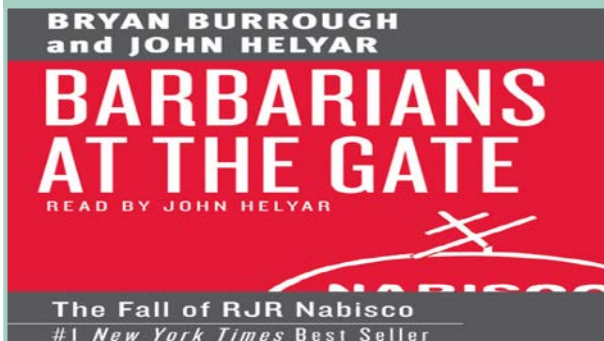
Focus on financial engineering



Largely industrials and consumers



Primary buyouts only



Family office and select pensions as LPs



Small Wall Street teams and select entrepreneurs as GPs



Private Markets 2.0 (1995-2010) – "scaling private markets"

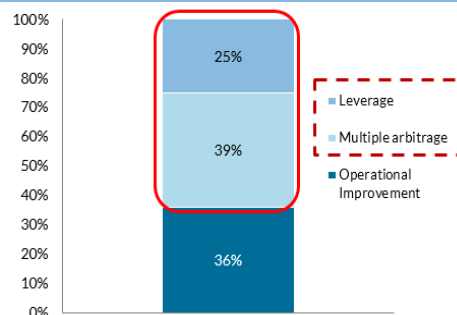
New sectors, but generalists at work



Expansion to private real estate and infra



Mostly financial value creation still



Financial buyouts, growth buyouts and venture capital



Start of and growing secondary buyout

"There is no reason at all that you can't make the same return from secondaries that, historically, private equity has made in a primary sense. Meaningful double digits, closer to twenty than 10."
 [Billy Gilmore, Head of PE at Scottish Windows]

Many to most institutional investors and SWF as LPs



Growth of GP firms, rise of mega firms and Multi-Asset coverage



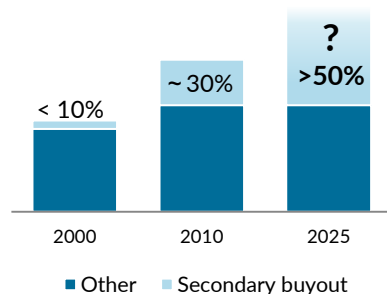
Private Markets 3.0 (2010-2025) – "moments of truth"

Institutionalization (intermediation, speed execution) of business

"Private equity surge spurs faster auctions – strong demand for prized assets leads to express deals as valuations near 10-year high"

[Financial times, 2017]

Secondary buyouts as norm rather than exception



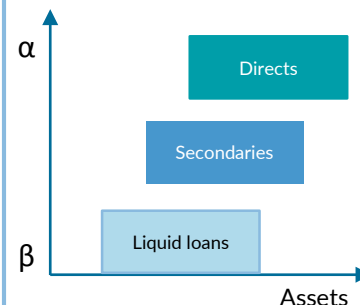
Commoditization of certain segments (e.g. liquid loans, secondaries etc.)

sebia

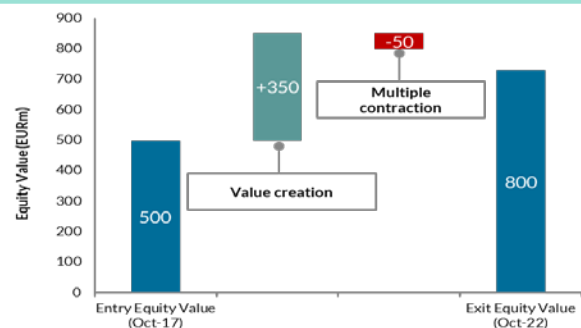
Heavily oversubscribed €1bn-equivalent loan. Launched at E+ 3.50%, priced down to E3.25% and last tranche priced at E+ 3.00%

[Reuters, 2017]

Growing beta character of select segments



Transformation of valuations framework leads structurally to higher entry values



GP-ization of select larger investors



Professionalization of investors in private markets ...

"48% of all institutional investors plan to increase their private equity allocation in the longer term"

[Preqin, Investor Outlook H1 2017]

... but growing segmentation of investor universe

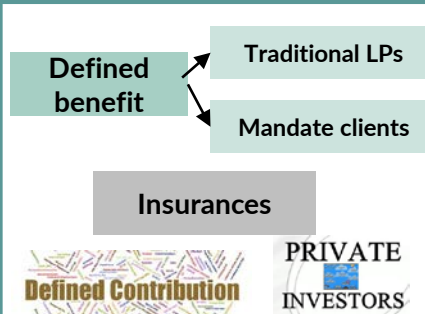


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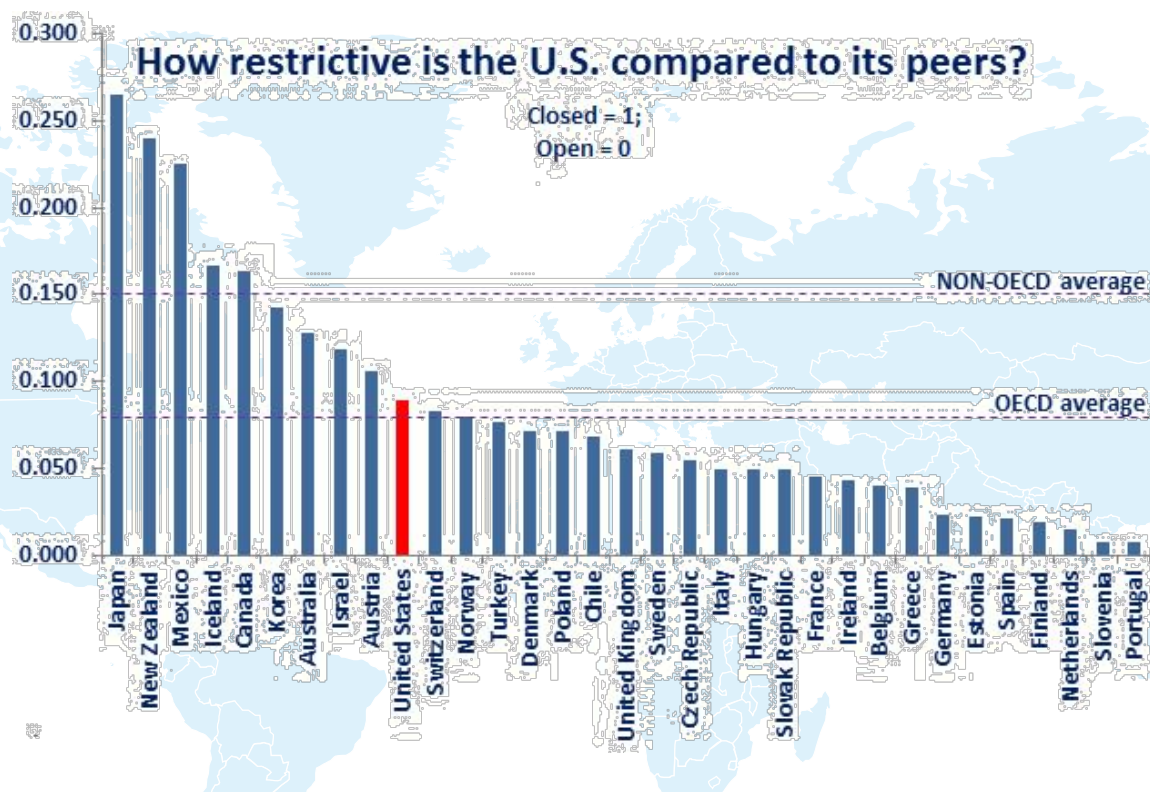
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Global foreign investment legislation "minefield"



In 2016, the OECD noted that countries around the world are reevaluating, and often tightening, their oversight regimes. Most have broadened the scope of what is considered "national security sensitive" to include energy, telecommunications, infrastructure and health care.



Foreign Investment Rules: France / PG Cerba transaction



In January 2017, PG announced that together with one of Canada's largest pension investment managers, it agreed to acquire Cerba HealthCare ("Cerba"). Cerba is a leading operator of clinical pathology laboratories.



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French Minister of Economy

What is it?

- Acquisition of control over French companies carrying out "**sensitive activities**" by foreigners is subject to the prior consent of the French Minister of Economy.
- "**Sensitive activities**" include activities relating to **equipment, goods or services** which are essential for the **guarantee of the interests** France with regards to **public order, public safety or national defense** in connection with protection of **public health**.
- Not too many guidelines available relating to the scope of activities covered by "protection of public health". Whether or not an activity is a "sensitive activity" is determined on a **case-by-case basis**.

How did it impact the Cerba deal?

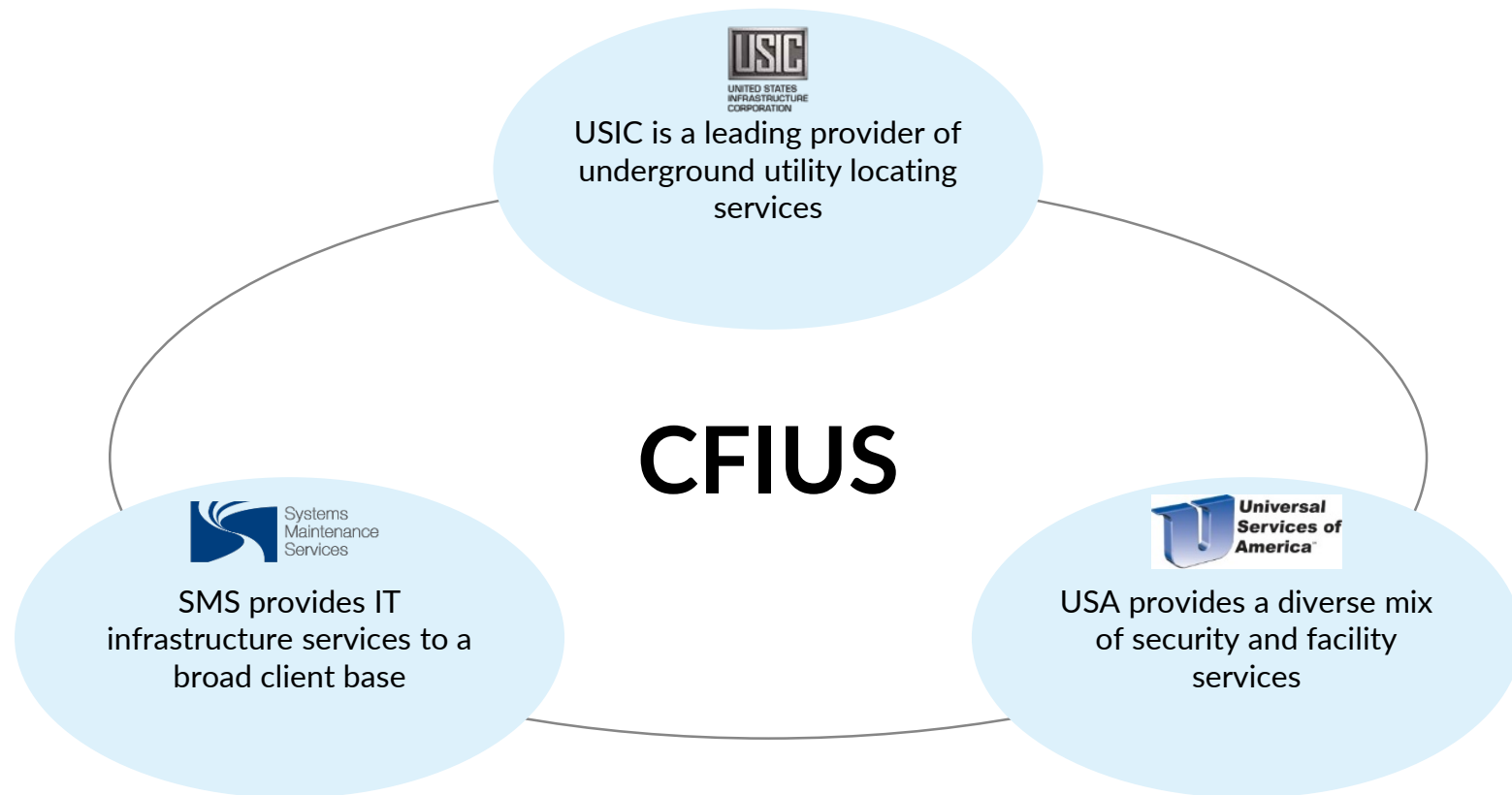
- Two available procedures: (i) **confirm** that the transaction is **not subject** to an approval, or (ii) **request** for approval.
- In the interest of time, PG decided to opt for a **mixed approach**: **obtain confirmation** that the transaction is **not subject to an approval**, or in the case the Ministry considers that the transaction is subject to an approval, that it considers the filing as a **request for approval**.
- Drawback: it requires preparing a **full foreign investment filing**.

Risk of not filing?

- Non-compliance with the foreign investment rules is subject to **criminal sanctions** and could result in a transaction being **null and void**.
- *Cerba filing outcome (extract from counsel's email)*
 - "The Ministry confirmed orally that the transaction falls outside the scope of the foreign investment regulation. (...) This outcome is very satisfactory since our submission faced a lot of additional questions both from the Ministry of Health and the Ministry of Agriculture. Thanks to everyone's reactivity, we were able to provide these ministries with all the required information and to obtain - subject to the written confirmation - a successful decision a bit ahead of schedule."



Foreign Investment Rules: U.S. - various (potentially affected) PG transactions



CFIUS

What is it?

- Stands for the **Committee on Foreign Investment in the United States**.
 - The Secretary of the Treasury is the Chairperson of CFIUS; the members of CFIUS include the heads of various departments (Commerce, Defense, Energy, etc.) and offices.
- They review certain "**Covered Transactions**" that could result in the control of a U.S. business or asset by a non-U.S. person.
- "**Covered Transaction**" is generally understood as one that involves a level of **national security** or **critical infrastructure**.

How does it impact deals?

- PG must decide whether or not to file **Joint Voluntary Notice** with CFIUS in deals with U.S. nexus.
- *Example (USIC)*
 - Seller pushed for a reverse termination fee if CFIUS approval was not obtained.
 - PG negotiated for a reduced CFIUS break fee which will become payable if, at any time after day 125 post signing, the seller determines (after consultation with PG) that there is no reasonably likelihood of CFIUS approval before day 180 post-signing.
 - PG's regulatory counsel advised in writing of a 99% likelihood of CFIUS approval for this acquisition.

Risk of not filing?

- CFIUS **could take interest in a transaction** (no time limit to question a transaction).
- May ruin PG's positive **reputation** with CFIUS.
- CFIUS may be **more likely to impose harsher mitigation measures** when they take interest in no-file cases.
- Important note: also consider CFIUS approval in case of **syndications** (CFIUS expects to review an individual co-investor above 10% ownership).

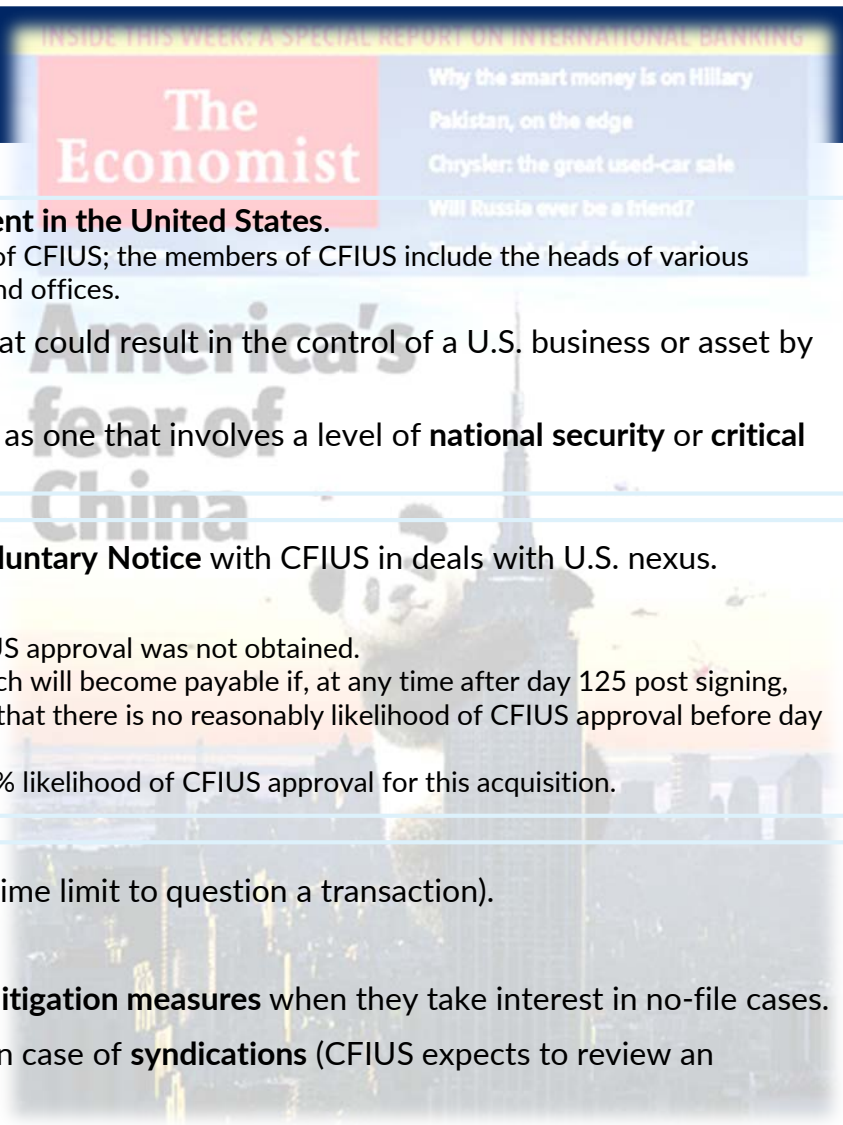


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EU GDPR key elements explained

Personal data

This means any information relating to an identified or identifiable natural person ('data subject'); an identifiable natural person is one who can be identified, directly or indirectly, in particular by reference to an identifier such as a name, an identification number, location data, an online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity.

Lawful processing

Consent; necessity for performance of a contract; necessity for legal or regulatory compliance; necessity for protecting vital interests of a natural person; public interest; purpose of legitimate interests pursued by the data controller or a third party.

Consent

The conditions for consent have been strengthened and companies will no longer be able to use long illegible terms and conditions full of legalese, as the request for consent must be given in an intelligible and easily accessible form, with the purpose for data processing attached to that consent. It must be as easy to withdraw consent as it is to give it.

Privacy by design

At its core, privacy by design calls for the inclusion of data protection from the onset of the designing of systems, rather than an addition.

Breach notification

The data controller shall without undue delay and, where feasible, not later than 72 hours after having become aware of it, notify the personal data breach to the competent supervisory authority, unless the personal data breach is unlikely to result in a risk to the rights and freedoms of natural persons. Where the notification to the supervisory authority is not made within 72 hours, it shall be accompanied by reasons for the delay.

Penalties

Fine up to 4% of annual global turnover or €20m (whichever is greater). This is the maximum fine that can be imposed for the most serious infringements. There is a tiered approach to fines, e.g. a company can be fined 2% for not having their records in order.

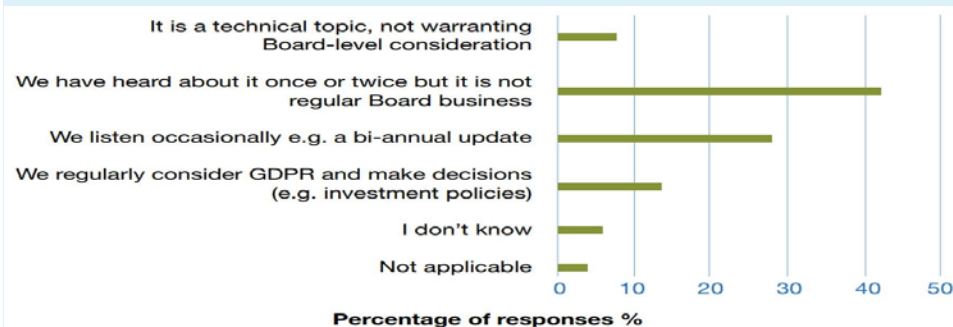


EU GDPR – "state of the [a] nation"

More board level attention may be required...

"The British government has warned that boards of 15% of FTSE 350 companies are scarcely aware of the introduction of the GDPR, while only 8% are completely prepared, meaning a significant number of top organizations are set to be stung by the major new data regulations."

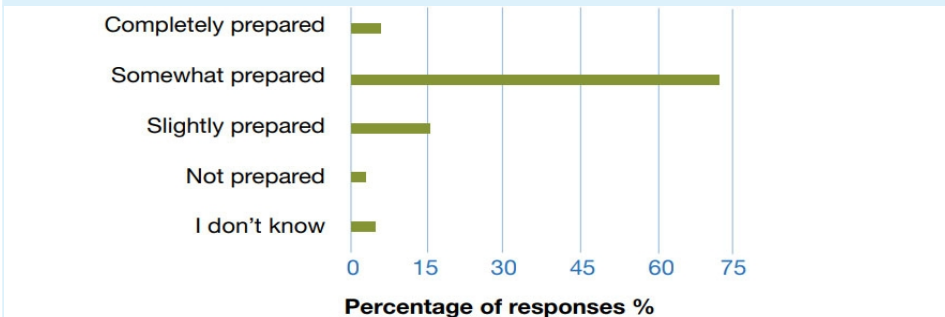
(Current) board handling...



Areas with most concerns....



Level of preparation...



EU GDPR = biggest change in data protection laws for 20 years!



EU GDPR @ Partners Group

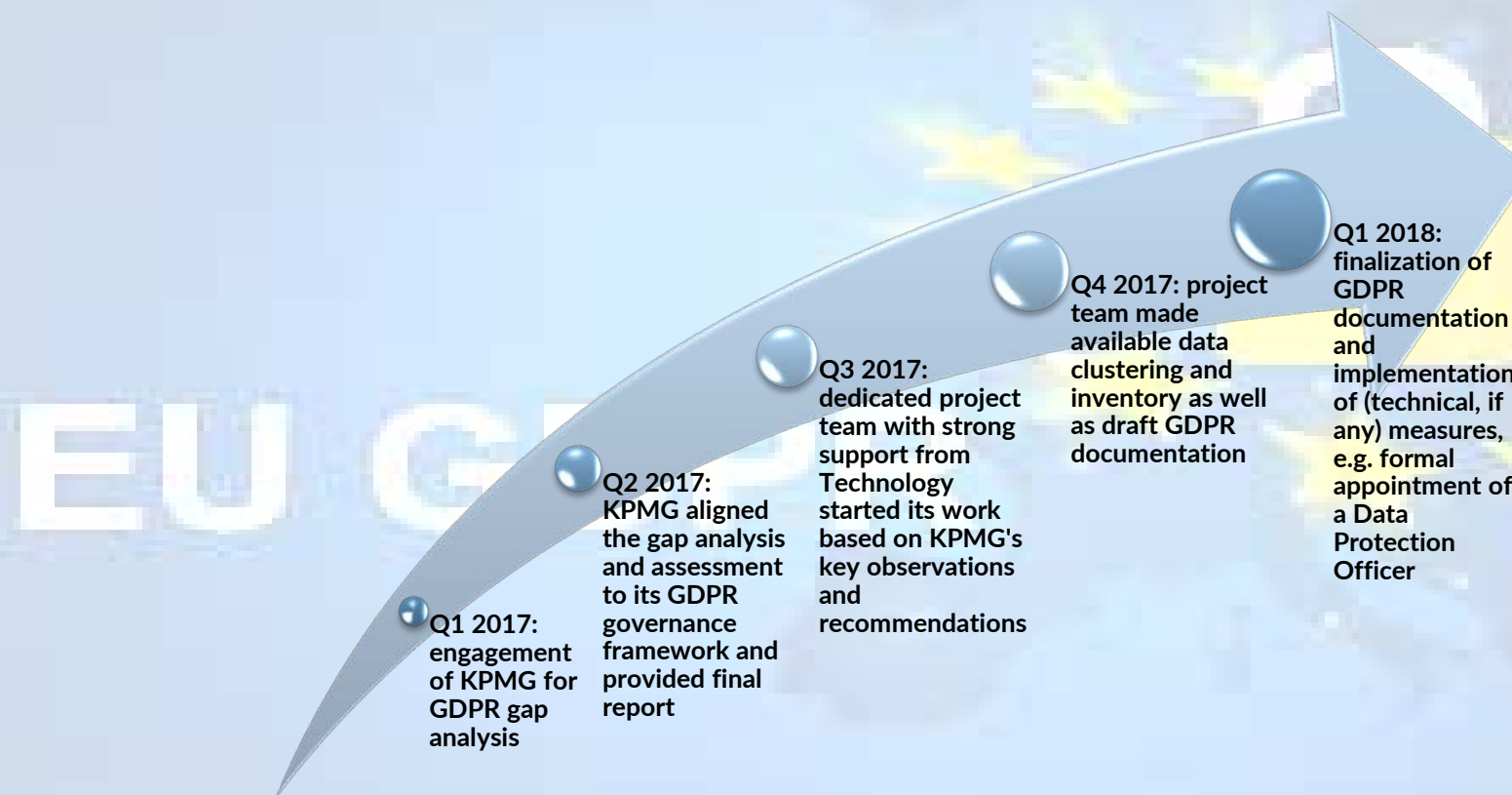


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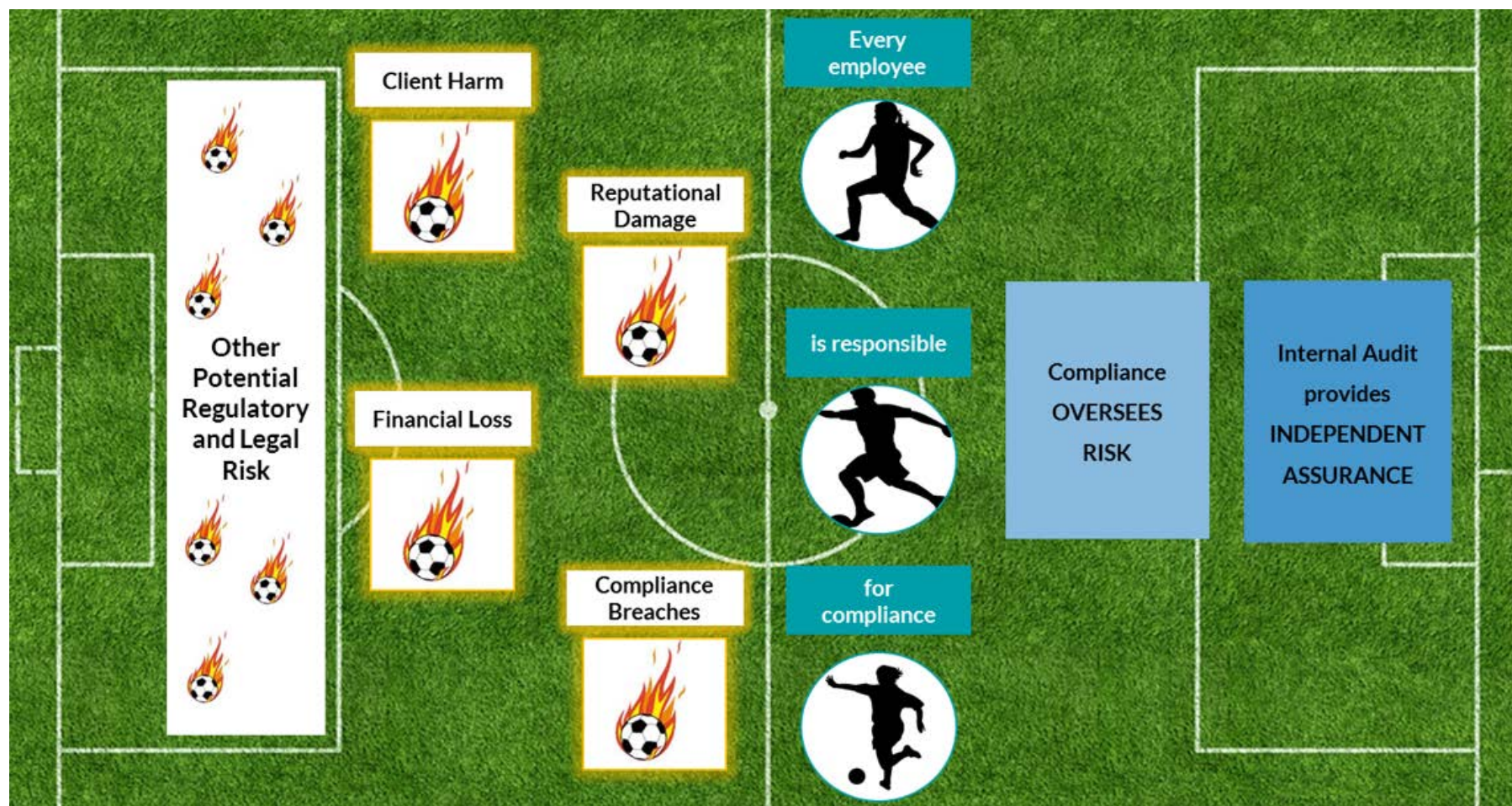
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Sports analogy II: offense wins games, defense wins championships...



Staying focused and disciplined, maintaining a robust three lines of defense model as well as having proficient "coaches" at the sideline are key for safely navigating through the regulatory & compliance minefield (or mogul slope...)!

Enjoy the seminar & safe skiing!



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